Vermont Gas
CLEAN ENERGY. CLEAN AIR.

MEMORANDUM

TO: Ann Bishop and Andrea McHugh
EEU E-mail Service List

FROM: Vermont Gas Systems – Scott Harrington and John St. Hilaire

RE: Comments on policy and overall framework for screening of heating and process-fuel efficiency measures

DATE: June 18, 2009

In accordance with the Board's memorandum of May 14, 2009, Vermont Gas Systems, Inc. ("VGS") provides these comments regarding the policy and overall framework matters the Board should consider as it evaluates the screening of heating and process-fuel efficiency measures. These comments should be treated as VGS' initial thoughts on the issues. As these matters are more fully developed, VGS looks forward to additional opportunities to provide more in-depth comments on both these issues and the technical issues.

As an initial comment, it is important to weigh the costs associated with developing, tracking, and monitoring the indirect costs and savings associated with efficiency measures against the value gained. A tremendous amount of effort could go into such an initiative and result in very little change in the efficiency programs offered or the measures installed.

VGS believes it is appropriate to include both externalities and some form of a risk adjuster in the screening under discussion. Externalities should be fuel-specific and reflect those externalities that are reasonably able to be monetized. VGS acknowledges that there are external costs that could very difficult to quantify. This could simply be acknowledged and noted that efficiency benefits are not full captured or addressed through some sort of generic adjuster like the risk adjuster.

If externalities are included in the cost-effectiveness screening, it will be important to revisit these values periodically. Changes in environmental regulations could result in the cost of certain externalities being reflected in the underlying fuel costs. Periodically revisiting the externality values will help ensure certain costs are not double counted.

P.O. Box 467, Burlington, VT 05402-0467 • 85 Swift Street, South Burlington, VT 05403
802-863-4511 • 800-639-8081 • www.vermontgas.com

VGS believes that there are risks associated with the production and delivery of all forms of energy and therefore some form of a risk adjuster is appropriate and should be the same across fuel types.

VGS does not have a firm position on the issue of measure-level vs. project-level screening raised by the Board in the May 14, 2009 memorandum. At a minimum, each individual energy efficiency *program* should be cost effective. Within a given program an energy efficiency provider should have some flexibility. VGS uses both measure-level and project-level cost effectiveness screening. For example, in VGS' retrofit programs, customers are provided measure-level recommendations and VGS generally only provides incentives for the measures that screen as cost-effective. However, there are situations where the VGS energy efficiency professional may recommend a non-cost effective measure (for example something that may improve the comfort of a home or where it is more likely that the customer will complete a project if the measure is included) and provide incentives for that measure. In those cases the customer project, including the non-cost effective measure, must pass the cost effectiveness screening.

As a final comment, regarding the avoided cost discussion that was the topic of the prior workshop; VGS believes that the underlying wholesale avoided costs should be consistent across programs for comparable markets. For example, if two programs both were estimating avoided fuel oil costs for Vermont, they should both use the same value. However if the underlying market is different, it may be appropriate to use different wholesale values. For example, estimating avoided natural gas costs for VGS' customers should be based on Canadian supply to match VGS' actual avoided gas costs. On the other hand it might be more appropriate to use New England avoided natural gas costs to estimate the marginal cost of generation.

VGS looks forward to continuing the discussion on these topics.